Luxembourg’s economic freedom score is 80.6, making its economy the 5th freest in the 2022 Index. Luxembourg is ranked 3rd among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Five years ago, Luxembourg’s economy was growing. It slackened in 2019, contracted in 2020, and registered renewed growth in 2021. During those years, however, economic freedom remained vigorous. With gains in scores for business freedom and rule of law outperforming decreases in monetary freedom and trade freedom, Luxembourg has recorded an impressive 4.7-point overall gain of economic freedom since 2017 and has climbed back into the highest, “Free” Index category after a two-decade hiatus. Fiscal health and investment freedom are very robust, but government spending still weighs heavily on the economy.

**IMPACT OF COVID-19:** As of December 1, 2021, 876 deaths had been attributed to the pandemic in Luxembourg, and the government’s response to the crisis ranked 69th among the countries included in this Index in terms of its stringency. The economy contracted by 1.3 percent in 2020.

**ECONOMIC FREEDOM SCORE**

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**RECENT FREEDOM TREND**

**QUICK FACTS**

**BACKGROUND:** A founding member of the European Union in 1957 and the eurozone in 1999, the small Grand Duchy of Luxembourg continues to promote European integration. Democratic Party Prime Minister Xavier Bettel leads a three-party left-leaning coalition. Luxembourg enjoys high levels of prosperity; the recession provoked by the economic crisis in 2009, for example, was its first recession in 60 years. During the 20th century, Luxembourg evolved into a mixed manufacturing and services economy with a strong financial services sector that accounts for 25 percent of GDP. With its low energy costs, a reliable electricity grid, stable governance, and a growing data-storage sector, Luxembourg is attracting interest as a hub for the 21st century information economy.

**HISTORICAL INDEX SCORE CHANGE (SINCE 1996):** +8.1

**POPULATION:** 0.6 million

**GDP (PPP):** $73.9 billion

-1.3% growth in 2020

5-year compound annual growth 2.1%

$118,002 per capita

**UNEMPLOYMENT:** 6.7%

**INFLATION (CPI):** 0.0%

**FDI INFLOW:** $62.1 billion

**PUBLIC DEBT:** 25.5% of GDP

2020 data unless otherwise noted. Data compiled as of September 2021.
Luxembourg’s legal system protects and facilitates the acquisition and disposition of all property rights. The open and transparent economy has no restrictions on foreign ownership. Contracts are secure. The judiciary is independent, albeit slow, and a well-functioning legal framework strongly supports the rule of law. Laws, regulations, and penalties are enforced impartially to combat corruption.

The top individual income tax rate is 42 percent, and the top corporate tax rate is 17 percent. The overall tax burden equals 39.2 percent of total domestic income. Government spending has amounted to 44.1 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.6 percent of GDP. Public debt is equivalent to 25.5 percent of GDP.

The robust financial sector transitioned to telework with the advent of the COVID pandemic, and the economy remained strong. More investment fund assets are domiciled in Luxembourg than in any other country besides the United States. Proactive actions against labor and human rights abuses have been effective. Labor regulations could be simplified. Monetary stability has been well maintained, and the government has made some progress in privatizing state-owned enterprises.

As a member of the EU, Luxembourg has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 EU-mandated nontariff measures in force. Overall investment activity is sustained by the solid institutional foundations of an open-market system. The sophisticated financial sector is well capitalized and competitive.